



Legislation Text

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Report to Mayor and City Council

Tuesday, May 16, 2017

Discussion

SUBJECT:

FISCAL YEAR 2017-18 BUDGET WORKSHOP #3 (CITY COUNCIL)

I. SUMMARY

This is the third budget workshop and staff suggests, due to the magnitude of the financial issues facing the community, that we hold a fourth budget workshop on June 6th. The Council Budget Subcommittee has held six meetings and additional meetings are being scheduled this month to consider additional budget reductions and revenue increases.

The draft FY17-18 budget deficit is currently \$6,760,223 or 8.9% of General Fund revenue. The City has historically run deficit budgets for the last eight of eleven years.

The draft deficit cannot be cured by simply making cuts to the expenditure budget. Many of the City's expenditures are tied to public safety and mandated programs required by federal, state and local law. The community has expectations for City services, such as community services programs, parks and street maintenance.

Many of these services are provided by City employees, further complicating potential budget cuts that may result in lay-offs or furloughs. Reducing the budget deficit will require a combination of difficult decisions to reduce services, and increase or establish new revenue sources. Staff is suggesting a multi-year process to reduce our budget deficit.

II. RECOMMENDATION

PROVIDE additional direction regarding the draft FY17-18 budget.

III. ALTERNATIVES

TAKE another action deemed appropriate by City Council.

IV. BACKGROUND

To date, the City Council has held two budget workshops to provide direction for the draft FY17-18 budget: March 21st and April 18th. The City Council Budget Subcommittee (Mayor Pro Tem Davis-Holmes and Councilmember Hicks) has met six times to review various staff proposals and provide feedback (March 16th, March 30th, April 17th, April 26th, May 3rd, and May 10th) with additional meetings being set to complete their review of staff recommendations. The Subcommittee will need two additional meeting prior to the proposed June 6th workshop.

At the April 18th budget workshop, staff reported a draft FY17-18 General Fund deficit of \$6,965,303. City Council directed the following:

1. Include \$220,000 of General Fund money in the FY17-18 budget for City events.
2. Review staff vacancies and priorities for a potential hiring freeze.
3. Include funding for the Summer Youth Program in the budget. The General Fund would subsidize 100 youth; and other resources would subsidize additional youth.

The draft FY17-18 budget has been updated, based upon new information. A summary of the status of the draft General Fund budget follows.

Net Activity Reported April 18th	(6,965,303)
City Event Subsidy	(220,000)
Expiration of Growth Rate Deputy	(75,673)
Summer Youth Funding for June 2018, approximately one-third of the summer 2018 program (based upon direction to fund summer 2017)	(36,000)
Community Development Department Reorganization	467,972
Other Adjustments/Corrections	68,781
Net Activity as of May 16th	(6,760,223)

Estimated General Fund Balance, June 30, 2017	\$12,833,162
DRAFT Net Activity for FY17-18	(6,760,223)
Estimated General Fund Balance, June 30, 2018	\$ 6,072,939

The calculated policy reserve level would be approximately \$16.5 million (20% of annual budgeted expenditures). Therefore, the estimated General Fund balance at the end of FY17-18 would be \$10.4 million less than the policy level.

Sheriff Contract

Staff had previously reported an estimated increase of \$765,250 for the FY17-18 Sheriff Contract. This was based on a 3.8% rate increase, plus an increase of the Liability Trust

Fund surcharge from 9.5% to 10.0%. We received updated information that the “growth” rate has expired for one deputy. Therefore, the estimated increase for FY17-18 is closer to \$840,923 (an additional \$75,673).

Community Development Reorganization

The Budget Subcommittee proposes a minor reorganization of the Community Development Department which is estimated to save the General Fund approximately \$467,972 annually, and is summarized as follows.

- Reclassify the vacant Business Development Manager to a Community Development Manager.
- Reclassify the vacant Housing Program Manager to a newly defined Manager position with a description that better fits the needs of the department.
- Eliminate an analyst position.
- Allocate 1.5 FTE's out of the General Fund, into restricted funds.

If the City Council approves the proposal, two new job descriptions would be presented for approval.

Community Services Fee Recovery Proposals

The City Council Budget Subcommittee has reviewed Community Services fee recovery proposals during several of their meetings and has provided feedback to staff. The Department is currently estimating the revenue increases from these proposals. The new fee increases would be presented to the City Council on June 6th.

Credit Card Processing Fees

Previously, staff recommended establishing a credit card processing fee, to pass along the City's merchant processing fees to customers wishing to pay for City services with a credit/debit card.

Upon further investigation, we found the downsides to charging such a fee outweigh the benefits. The City cannot charge a fee that exceeds the City's cost of providing a service. The City pays various merchant processing fees based upon the credit card company, the way the transaction is processed, and whether the card is debit or credit.

The City Council could impose a fee based upon the least expensive formula, to ensure no single customer pays more than the City's cost. The City would only recover some portion of its merchant processing fees, vs. 100% cost recovery. Unfortunately, the City's 27 credit card machines are not capable of calculating such a fee for each transaction.

Therefore, staff has revised the recommendation to impose a \$10,000 limit on the dollar amount of credit card transactions per customer. This is estimated to save the City approximately \$12,000 of merchant processing fees annually. If a \$5,000 limit were

imposed, the savings may increase to about \$16,000 annually.

Other cities have imposed such a dollar cap successfully. Examples include Rancho Palos Verdes (\$10,000), Santa Ana (\$5,000), and El Segundo (\$5,000).

Building Maintenance Surcharge - Restricted Money

The City's facilities are aging and suffer from deferred maintenance. Other agencies have successfully established facility rental surcharges dedicated to building repairs. Staff proposed the establishment of a 10% surcharge on all facility rentals. A preliminary estimate indicates this surcharge may generate approximately \$55,000 of restricted revenue annually that would be used to make facility repairs and improvements. The restricted revenue would be deposited into a separate special revenue fund. The proposal is supported by the City Council Budget Subcommittee.

Renewed Measure A Allocation

The City has received preliminary information from the L.A. County Park District indicating the City may receive an annual allocation of approximately \$350,000 of Measure A money recently renewed by county voters for construction or acquisition of park facilities. Community Services staff identified the Scott Park Pool as the highest priority project that remains unfunded. The FY16-17 budget includes \$300,000 to rehabilitate the Scott Park pool deck; however nothing is included for renovation of the actual pool, which has a preliminary cost estimate of \$700,000. Staff recommends using the City's Measure A allocation from FY17-18 and FY18-19 to fund this project. The City Council Budget Subcommittee supports this proposal. City staff will also monitor grants for the pool renovation.

The City may also receive about \$80,000 annually from the Measure A program for maintenance of facilities originally funded with Measure A money. Once we receive more details from the L.A. County Park District regarding the amount and allowable uses of this money, staff will develop a recommendation to City Council; which may result in an amendment to the FY17-18 budget after it is initially adopted.

Next Steps

Originally, the public hearing to consider adoption of the FY17-18 budget was scheduled for June 6th. Staff recommends conducting one more budget workshop on June 6th, and holding the public hearing on June 20th to consider adoption of the FY17-18 budget.

The City Council Budget Subcommittee expects to review the following prior to June 6th.

- Consideration of a hiring freeze and other options to reduce the employee compensation budget.
- Leased vehicle analysis.
- Potential reorganization of the Sheriff's Park Enforcement Team.

- Proposed increases to Public Works fees.

The City Council Budget Subcommittee supported staff requests to study the following items which may impact the FY17-18 budget, but will not be ready for budget adoption in June.

- Parking meters.
- Downsizing the reproduction function through attrition.
- Bus stop and bus advertising.

Based upon the results of the in-house studies, budget amendments may be proposed after the beginning of the new fiscal year.

Staff expects to return on June 6th with an updated draft budget and five-year model.

V. FISCAL IMPACT

There is no immediate fiscal impact resulting from the direction provided by City Council. The draft FY17-18 budget will be updated, and presented to City Council for consideration at a public hearing.

VI. EXHIBITS

None.

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